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JOINT ANNUAL REPORT

2002

S A M O A

1. EXECUTIVE SUMMARY

Article 5, Annex 1V of the Cotonou Agreement requires that the National Authorising Officer and Head of Delegation shall annually undertake an operational review of the indicative programme and within 30 days of completion of the review, draw up and submit a report to the Development Finance Committee.

This joint annual report for 2002 fulfils this reporting requirement.

Under Cotonou, the indicative financial allocations for Samoa are € 20.0 million for the “A” Envelope and € 7.1 million for the “B” envelope. The focal sector will be public health enhancement through water supply and sanitation projects, which is largely a continuation of previous involvement in the water-sector. A non-focal sector has been identified as micro-project type approach to support the village economy.

Implementation of the programme financed under Lome 1V is proceeding well with the major rural water supply project completing in December 2002. The CSP programming process was well handled and effectively completed with the signing of the CSP in March 2002. A financing proposal (€ 4 m) for a new phase of the successful microprojects programme has been submitted.

2. THE POLICY AGENDA OF THE PARTNER COUNTRY

In January 2002, the Government of Samoa launched the new Strategy for the Development of Samoa (SDS) for 2002-2004. Previously known as the Statement of Economic Strategy this new name recognises the importance and contribution of the social sectors to the development of the Samoan economy. It encapsulates the significance of economic growth, the importance of the social sectors as well as strong cultural values in Samoa's development. It therefore confirms the government's commitment to addressing the objectives of the ACP-EU partnership agreement of poverty reduction, sustainable development and integration into the world economy.

The previous three SES highlighted a strong growing economy as the key to sustainable development. With the macroeconomic framework now in place as evidenced by the record of positive economic growth in the past four years the need to address the social implications of development are now fully recognised. Leading from the new title, the theme for the 2002-2004 SDS is “*Opportunities for All*” highlighting the commitment to ensure that every Samoan shares the benefits of development and reform initiatives. This is the fourth strategic plan and along with the new title the duration is extended from two to three years, affording more time for the realisation of the key strategies being implemented.

The SDS (in short) provides a clear vision for the way forward. It clearly articulates the areas of priority need as perceived by the wider community. This vision is for every Samoan to enjoy an improved quality of life premised on a competitive economy with sustained economic growth, improved education, enhanced health standards and strengthened cultural and traditional values.

This vision is supported by nine Strategic Outcomes, the achievement of which guides all sector strategies, the Public Sector Investment Programme, and the annual budget outputs. The intensification of health promotion and health prevention programmes, as well as improved infrastructure and services have been mentioned among the priorities. Strengthened social structure is newly included as an outcome and the role of Non Government Organisations in social programmes is highlighted.

3. UPDATE ON THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

Assessment of progress towards achieving the Millennium Development Goals is made difficult in Samoa by the paucity of collated data on some selected indicators. Both ADB and UNDP are currently undertaking activities to address this issue.

Type	Indicator	2000	2001	2002	2003	2004
Impact	1. Proportion of population below \$1 per day	-	-	-	-	-
	2. Prevalence of underweight children (% under-five years of age)	17% (1997)	-	-		
	3. Under five mortality rate (per '000 live births)	45	45	39		
Outcome	2. Primary education gross enrolment (%)	98%	93%	98%		
	3. Primary completion rate	94%	92%			
	4. Ratio of girls to boys in:					
	- primary education	0.93	0.93	0.92		
	- secondary education	1.05	1.05	1.05		
	- tertiary education					
	5. Proportion of births attended by skilled health personnel (% of live births)	100%	100%	100%		
	6. Proportion of 1 year old children immunised against measles ^a	1324	1446	2383 (98%)		
	7. HIV prevalence among 15-24 year old pregnant women	0	0	0		
	8. Access to safe water (% of population) ^b	89%	90%			

- no data available

^a total number of 1 year old children immunised total population of Samoa 176,000.

^b The data presented on access to safe water (2001 census) may be misleading, Samoa Water Authority estimate that on completion of EU RWS project (early 2003) around 91,000 people (52% of population) will have sustainable access to a potable water supply.

Sources: ADB Country Strategy and Program Update (2003-2005). Samoa Education Department, Samoa Health Department.

3.1 Political Situation

Good economic policy is good political policy. The success seen so far in the economic development of the Samoan economy is largely attributed to its stable political agenda. Within the Pacific region there has been much political and economic upheaval in the last year. Samoa on the other hand continues to be viewed as one of the more stable economies and political environments in the Pacific region. This was further confirmed by the success of the Human Rights Protection Party in the March 2001 elections, making it their seventh consecutive term in office (over 20 years).

Good Governance

The primary focus of the on going public sector reform within the Samoan government is to enhance the efficiency and effectiveness of the public sector while giving due regard to the four pillars of good governance namely transparency, accountability, predictability and participation in procedures and processes. In this regard, steady progress has been made in complying with the eight principles (see insert) that were agreed upon by the Forum Economic Ministers at their 1998 Annual meeting.

Eight Principles of “Best Practice” for Public Accountability

1. Budgetary Processes, including multi-year frameworks, to ensure Parliament is sufficiently informed to understand the longer-term implications of appropriation decisions;
2. The accounts of government, state-owned enterprises and statutory corporation to be promptly and fully audited, and the audit report published where they can be read by the general public;
3. Loan Agreements or Guarantees entered into by Government to be presented to Parliament with sufficient information to enable Parliament to understand the longer term implications;
4. All Government and public sector contracts to be openly advertised, competitively awarded, administered and publicly reported;
5. Contravention of financial regulations to be promptly disciplined;
6. Public Accounts Committee of Parliament to be empowered to require disclosure;
7. Auditor General and Ombudsman to be provided with adequate fiscal resources and independent reporting rights to Parliament; and
8. Central Bank with Statutory responsibility for non-partisan monitoring and advice regular and independent publication of informative reports.

3.2 Economic Situation

Basic economic data are summarised in the following box:

Population	176,848 (November 2001 Census of Population and Housing)
GDP	US\$ 244 million (ADB estimation for 2001)
GDP per capita	US\$ 1,380 (2001)
GDP growth rate	3.4% in 1998; 5.6 % in 1999; 6.9% in 2000; 6.2 in 2001; 1.8% in 2002.
Inflation rate	2.2% in 1998; 0.3% in 1999; 0.9 % in 2000, estimated 4.0% in 2001
GoS revenue	US\$ 74.7 million (IMF estimation 2000)
GoS expenditure	US\$ 79.9 million (IMF estimation 2000)
Exports (fob)	US\$ 16.6 million (1999); US\$ 13.7mn (2000),US\$ 16mn (2001)
Imports (cif)	US\$ 105.4 million (1999); US\$ 105.7mn (2000), US\$136mn (2001)
Total ext. debt	US\$ 151.3 million, or 62% of GDP (IMF est. 2000)
Gross reserves	US\$ 52.9 million, or 4.1 months of imports (2001)

Over the last four years the Samoan economy has continued to achieve strong real economic growth. In 1998, economic activity grew by 2.5%; 2.8% in 1999; 6.9% in 2000; and 6.2% in 2001. This sound performance is a direct result of the implementation of responsible economic and financial policies. It has also benefited from the reform program initiated by the Government in 1994. Prudent economic policies and sound fiscal management must be continued in order to consolidate the gains already achieved and to provide the basis for further sustained growth in the short to medium term.

The Samoan economy performed strongly in 2001. Gross Domestic Product in nominal terms was estimated at SAT\$849.9 million which represents a per capita income of SAT \$4,884. In constant prices, the real value of aggregate GDP was SAT \$686.4 million representing an increase of 6.2% over 2000. The “*Other Manufacturing*” sector was the biggest contributor accounting for 1.8 percentage points of the 6.2% growth rate. This strong growth was attributed mainly to improved production of Yazaki (automobile wiring harnesses) which increased by 25.2% over 2000. Transport and Communications as well as Commerce contributed positively

with 1.5% and 1.3% respectively. Agricultural production on the other hand, dropped by 12% as a direct result of the limited market outlet for copra, cocoa, kava and coconut cream. Construction eased off in the last two quarters of 2001.

Gross Domestic Product at current market prices for the first nine months of 2002 was estimated at SAT \$654.6 million and in real terms, SAT \$516.3 million. This showed a positive growth of only 0.8% compared to strong growths of 7.1% and 7.5% in the first nine months of 2000 and 2001 respectively. The primary and secondary sectors performed not so strongly during this period whereas the tertiary sector improved its dominant role increasing by 2.1 percentage points to a share of 53% compared to the corresponding 2001 period. Transport and Communication was the main industry providing the stimulus for the overall real growth contributing 0.8%. Commerce also contributed positively recording 0.4 percentage points. This was expected in view of the continuous refinements of the tariff rates in the September quarter and increased inflow of remittances, being more than 19% of the amount received in September 2001

The provisional estimates of Aggregate GDP for the year 2002 are SAT \$698.6 million an increase of 1.8 % from 2001. This moderate growth follows two years of very strong growth rates; 6.2% in 2001 and 6.9% in 2000. This is largely the result of poor performances in Construction, Other Manufacturing and the Fishing Industries. The tailing off of major public projects resulted in the slowdown in construction activity. Output for Yazaki Samoa the principal industry in Other Manufacturing declined in 2002 a reflection of the slowdown in the motor industry in Australia. The Fishing Industry tailored off following a record catch in 2001 with a decline in the number of active fishing vessels.

Latest projections for GDP for fiscal year 2002/03 show a real growth of 5.6%, compared to 1.9% in the last financial year. The strong growth in the 2002/03 fiscal year is a reflection of the economy picking up during the second half of 2002. The economy is expected to maintain this recovery phase into 2003 with a projected real growth of 3.6% for 2003. This is expected to come from:

1. Continuing revival of the **Agriculture** sector as a direct result of the on-going institutional strengthening project within the Ministry, the comeback of taro exports, the full operation of the coconut oil mill and continuing growth of the desiccated coconut;
2. Continuing strong growth in **Transport and Communication** with the introduction of more and better communication mediums and facilities; and
3. Recovery in the **Construction** industry with the commencement of new major projects such as the Second Phase of the IAMP which includes reconstruction of bridges and roads, continuation of the Education Sector Infrastructure and Health Sector Infrastructure projects.

Official government debt outstanding was recorded at SAT \$459.97 million at the end of June 2002. This amount is equivalent to approximately 53.7% of GDP. Multilateral and bilateral loans make up 90% (\$414.9 million) and 10% (\$45 million) of disbursed outstanding debt (DOD) respectively. Official government debt as a percent of GDP has been on a declining trend since 1998.

Management of Public Finances

The objective of the 2002/03 budget follows the government vision stated in the Statement of Development Strategy (SDS) which is “to improve the quality of life for every Samoan”. This broad social objective is accompanied by several economic objectives such as strong economic growth; low inflation; and high employment rates.

The government in its 2002/03 fiscal year continues to implement revenue measures that were established under the tax reform of the mid 1990s. The thrust of this revenue reform is to “reorient taxation to encourage income and employment generation”, by widening the tax base. Revenue measures introduced in the 2002/03 budget broaden the revenue source while concurrently introducing a fair and equal tax policy.

In terms of expenditure, several measures have been undertaken to ensure “a strong basis for responsible and prudent spending”. In particular, to confine the overall budget deficit below 3.5 per cent of the GDP in GFS format in order to sustain macroeconomic stability. For the 2002/03 budget, the overall deficit of SAT\$31.9 million is equivalent to 1.9 per cent of GDP. Any additional resources are distributed to priority sectors of education, health, agriculture and a range of community services. For instance, the budgetary allocation for the Education Department has been raised from SAT\$41.8 million in 2001/02 to SAT\$47.1 million in 2002/03, an increase of SAT\$5.0 million or 13 percent.

3.2.1 Reform Strategies

A comprehensive market-based financial liberalisation programme was initiated in early 1998. The reforms have entailed, *inter alia*, the removal of credit and interest-rate controls, the use of auctions of Central Bank securities as the main monetary policy instrument, and the strengthening of the capacity of the Central Bank. In October 2002 VAGST rate was increased from 10 to 12.5 % whilst the general import tariff rate was further reduced from 10 to 8%.

Reforms in the legal framework have included the approval of the Public Finance Management Act 2001, the Public Bodies (Performance and Accountability) Act 2001 and the Companies Act 2001. In the area of finance sector reform, the Financial Institutions Act was amended to place non-bank financial intermediaries under central bank supervision. The Government also moved to improve regulation and supervision of Samoa’s Offshore Financial Centre by introducing amendments to the Offshore Banking Act 1997 bringing the regulatory and supervisory system more in line with international standards.

A review of investment policies has led to a more transparent and enabling environment for investment in Samoa. The commitment to trade liberalization through extensive tariff reforms has provided an improved environment for investment. A Trade and Investment Promotion Unit has been established to assist any investor, either foreign or local, to expand existing business or establish new ones.

3.2.2 Trade and Regional Cooperation

Traditionally, Samoa's trade balance shows big deficits, with imports (€ 110mn to €120mn annually) five times more important than its exports (€ 18mn to €20mn). Major imported goods are mineral fuels, machinery and manufactured goods; major exports are coconut products, fish, beer, kava and automobile wiring harnesses; total export value in 2000: € 14.5mn. Total export revenue increased 11.1% in 2001 largely because of a surge in fresh fish exports and growth in garment exports, but imports were 21.1% higher, with most of the rise accounted by non-petroleum private sector imports. The trade deficit is largely compensated by remittances from Samoans working overseas: Private transfers account for 30% of GDP or approx. US\$ 70 million in 2000; official transfers and travel receipts make up 15% of GDP.

The recent ban on imports of kava by Germany and other European countries has had a significant negative impact on this small but important export commodity.

Integration into world economy

Samoa is a party to the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Island Countries Trade Agreement (PICTA). It is also an acceding member of the World Trade Organisation (WTO).

The PACER is not itself a free trade agreement although it deals with trade issues. It does not legally require the reduction of tariffs between the parties but is a framework agreement setting out the basis for the future development of trade relations among all 16 Forum members (including Australia and New Zealand). This framework includes guiding principles and objectives such as an undertaking to use “best endeavours” to follow international best practices in formulating trade rules. The PACER also requires all parties to keep each other informed about trade issues and that future arrangements between FICs and Australia and New Zealand must be no less favourable treatment than existing arrangements. It came into force on October 3rd 2002 after it was ratified by 7 country members – New Zealand, Australia, Tonga, Cook Islands, Fiji, Niue and Samoa.

The PICTA is a free trade agreement among the Forum Island Countries, which will gradually, over the next 10 years, lead to the establishment of a free trade area. That is, the PICTA once enforced will see the gradual elimination of trade barriers among the FICs. This removal of barriers to trade primarily involves the reduction of tariffs to zero on substantially all products. Exports from Samoa can enter other FIC markets at lower or no duty. PICTA will come into force after 6 FICs have signed and ratified the Agreement. At the moment only Fiji, Cook Islands, Tonga and Samoa have ratified and awaiting two more ratifications.

Samoa held its first Working Party negotiations for accession to the WTO in Geneva in March 2002. Following on from this meeting, bilateral discussions were held with New Zealand in October 2002 in Apia. Bilateral discussions with Australia are scheduled for early 2003. A second set of Questions has been received from WTO Members regarding Samoa’s trading regime and related legislation. The responses to these questions are being finalized and will be submitted to the WTO Secretariat in early 2003. Samoa will be revising its initial offers on tariffs and services as well as completing several accession questionnaires before a second Working Party Meeting is scheduled.

3.2.3 Transparency and Accountability

The availability and wider dissemination of statistical information has greatly improved in the last years. This has enabled the Government to publish regular Quarterly Economic Reviews and Annual Economic Statements for the public’s information. The Government has also completed the audit of outstanding public accounts.

In the area of money laundering, Samoa is on the OECD harmful tax list. The Government has not been inactive in this area and enacted the Money Laundering Prevention legislation as well as provided additional resources to the Banking Supervision Division of the Central Bank of Samoa. As a result, Samoa was not blacklisted as a Non Cooperative Country by the FATF on Money Laundering.

3.3 Social System and Social Situation

Samoa's social system is based on the *aiga* or extended family which functions particularly well at the village level and in rural areas.

The general impression from economic and social indicators is of relatively good and improving quality of life. Abject poverty that is common in many parts of Asia and Africa is not evident in Samoa. But living conditions for important parts of the population can be enhanced by better education, health care and public utilities (water, sewerage, power supply and communications).

3.4 Sustainability of Current Policies

The Government has demonstrated a strong commitment to social development. This is reflected in the priority given to education, health and basic infrastructure.

Key natural resource issues include water, waste disposal and sanitation. Two-thirds of the population now have access to water drawn from surface resources, the other third relying on bore water or rainwater. Sustainability is however threatened by problems such as declining water levels, decreasing water quality and unhealthy sanitation practices. While environmental impact assessment legislation has been drafted for consideration by Parliament, increasing pressure on the country's marine, forest, and land resources will require sound environmental management. Development of an integrated water resources management strategy is included in the 9th EDF programme.

3.5 Medium Term Challenges

In the medium term, the challenges facing the government are to maintain a stable macroeconomic framework, to continue with the implementation of its financial and economic reform program with the overriding objective of promoting private sector development, and of lifting the efficiency of the public services. Embodied in these reforms are the principles of good governance, accountability and transparency.

The key activity in furthering public service reform in 2001 was the beginning of a comprehensive functional review of all departments.

Amongst some of the constraints facing the economy has been the frequency of power failures resulting in costly disruptions to production and the relatively high cost of electricity; the quality, reliability and cost of water; the apparent low specific skills and productive levels of Samoan workers compared to their more competitive counterparts in the Asian region. A continuing increase in the number of employment opportunities is required. This needs to be matched by raising skill levels to meet the demands of new enterprises. All these issues are however being targeted for substantial investment over the next five years.

Another economic challenge is the question of how to achieve a stable economic growth in potential sectors, such as agriculture, trade, construction, tourism and communications.

4. OVERVIEW OF PAST AND ONGOING CO-OPERATION

Development co-operation (bilateral and multilateral) plays an important role in Samoa's economy, accounting annually for about 10% of GDP or nearly 50% of total current budget expenditure. The main donors are Australia, Japan, the EU, and New Zealand. The World Bank and ADB also have significant programmes in Samoa.

Australia is supporting economic and public sector reform along with ADB. They have Institutional Strengthening Projects with Public Services Commission, Water Authority, Public Works Department, Police, Immigration, Agriculture, Education, and Health. The AusAID institutional strengthening of Samoa Water Authority coordinates with and compliments the EU Rural Water Supply project. The AusAID project is scheduled to complete at the end of 2003.

AusAID is currently undertaking a major external review of the Institutional Strengthening Projects in Samoa. Preliminary assessment from the review indicates that ISP performance generally has been favourable. They have matched well with both the content and timing of the Government's own development objectives and reform priorities and have contributed to substantial improvements in a range of areas and have directly assisted GoS to implement the reform thrusts of the SDS. The review identified that the main impacts to date are:

- Modernisation of legislative framework for resource management.
- Improved corporate and annual budget planning and financial management.
- Legislative change to clarify specific agency mandates and associated organisational restructuring to support these mandates.
- Improvement in a range of other internal processes and systems covering fields such as asset management, contract management, personnel and a range of agency-specific activities.
- Significant strengthening of the skill base of the public service, most particularly but not exclusively at the top three levels of decision making.
- The beginnings of a 'customer service culture'.

However, a clear message for the future coming from the review is that there is a need to move to new forms of assistance in the future with a substantially reduced emphasis on the prevailing ISP model and to strengthen national ownership of the development cooperation agenda with strong links between sector plans and priorities on the one hand and Samoa's agenda for development assistance on the other.

New Zealand's main focus is on education, youth development and support for small business enterprise. They also have an ISP with the Justice Department. The health sector has support from the World Bank and Australia, whilst New Zealand also provides various medical treatment assistance programmes. Following a recent review of NZ assistance in the Pacific, a sharper poverty focus for NZ country programmes is envisaged in the future.

Japan supports large infrastructure developments (Apia wharf upgrade) and also smaller development projects through a "grassroots" programme. Japan has in recent years been one of the largest donors in terms of aid volumes to Samoa, however Japan's own budgetary constraints may pose limitations to the size of future programmes in Samoa. The JICA Office has indicated possible future assistance for the energy sector on the main island of Upolu.

The WB is providing infrastructure asset management support to the Public Works Department and has recently approved a telecommunications and postal sector reform project. ADB are assisting with urban planning and management. ADB are also the lead agency in the proposed Apia sewerage and drainage project.

4.1 EC co-operation

Under the terms and conditions of the four Lomé Conventions Samoa has received EC assistance through National Indicative Programmes, non-programmable aid (STABEX), the

European Investment Bank (EIB), the Centre for Development of Enterprise (CDE) and through regional programmes. Total commitments made so far under the different Lome Conventions amount to € 56.8 million, of which about 50% from NIP resources, 30% Stabex funds, 19% EIB financing and 1% emergency aid. The total amount allocated to Samoa under the last three NIPs alone amounts to € 34.9 million, including the increase of € 2.7 million from 8th EDF reserves which has been allocated to Samoa for its satisfactory performance under the last Lome Convention.

4.1.1 Lomé IV National Indicative Programmes

4.1.1.1 Focal Sector

Under Lomé IV the emphasis was placed on social and economic infrastructure in rural areas. One major rural water supply project dominates the programme with EDF funding of € 18.7 million. The completion of the infrastructure works in December 2002 provides for a quality water supply to an estimated 46,000 people, over one quarter of Samoa's population. Implementation of the works contract proceeded on schedule but final costs are anticipated to be up to € 1 million above the original contract price. An 'end of project' evaluation is planned for mid-year 2003.

However, the provision of the necessary infrastructure is only part of the process that is recognized as necessary by the Government and the Samoa Water Authority (SWA) to ensure an efficient, sustainable water supply for the people of Samoa.

Conservation of water and its sustainable use are increasingly critical factors in managing a scarce resource. Water needs to be seen as an economic good and appropriate financial incentives for optimising water use need to be in place. The expansion of access to water and improved provision of water services require costs be funded mainly from within the sector. A current challenge faced by the SWA is the excessive rate of consumption by customers already connected to supply systems. Per capita consumption is believed to be around 800 litres per day and needs to be drastically reduced so that the systems can meet demand and supply of enough good, clean water for everyone.

Integral in the water supply project is the installation of domestic water meters. The Government has also reviewed their tariff system to ensure that the charge reflects consumption and is not based on a flat rate as before. The new infrastructure will improve service provision and minimise non-revenue water thus providing a solid platform for efficient and sustainable operation of the SWA.

In the lead up to the infrastructure project the EU supported a public awareness/relations unit within the Samoa Water Authority which is now sustained under local funding. Public awareness has a critical role to play in the sustainable delivery of a potable water supply to the population of Samoa. Excess consumption, water leakage, conservation of the resource base, public health, land ownership rights, costs and tariff rates resulting in customers willingness to pay, are all major issues that necessitate good information communication and community education programmes. The SWA Unit whilst generally achieving positive results are more often responding in an ad hoc way to immediate needs rather than implementing a proactive programme. Budgetary constraints within the SWA currently limit the scope of the public awareness programme.

4.1.1.2 Projects and programmes outside the focal sector - Microprojects Programme

In parallel, micro-projects of a total amount of € 2.0 million for community-based operations were successfully implemented, including sectors like fisheries, agriculture, health, education, village tourism development and youth programmes. They are well co-ordinated with similar schemes funded by other donors (e.g. Japan).

An external evaluation of the programme was completed in November 2002. The multi-sectoral microprojects approach has been very successful in increasing opportunities in numerous small villages throughout both islands of Upolu and Savaii. Since the programme began in 1995 more than 250 projects have been completed benefiting directly around a quarter of the Samoan population. The design of the programme, which covers a wide range of eligible projects, has enabled the microprojects to address the needs of the rural poor. The simple procedures and flexible definition of community projects means that the rural population can more easily access the assistance available under the programme. The projects are small enough to ensure the minimum contribution can be raised in a village. The contribution principle helps ensure from the outset community ownership of the project. This is further enhanced by the active participation of village groups in the implementation of projects.

The microprojects programme in Samoa emphasises a reduced role of central government whilst nurturing a more vibrant private sector and civil society to take the lead in village revitalisation.

4.1.2 The 9th EDF programme

Under Cotonou, the indicative financial allocations for Samoa are € 20.0 million for the “A” Envelope and € 7.1 million for the “B” envelope.

4.1.2.1 Focal Sector

The focal sector is public health enhancement through water supply and sewerage projects, which is a justified continuation of previous involvement in the water-sector. Support for the development of an integrated national water resources strategy is envisaged as part of this programme. To facilitate this activity a water resources specialist has been appointed as Technical Assistance to the NAO and will commence duties on 1st April 2003.

The Samoa Water Authority will continue to be the main agency in the 9th EDF programme implementation. The SWA has to date received considerable donor support for water supply infrastructure, upgrading of technical skills and institutional strengthening of management and financial systems. The overall effort has promoted SWA as a major player in water issues and is building the much-needed arena to achieve self-sustainability.

Nevertheless, SWA still has significant challenges ahead to improve its service delivery of reliable quality water to all connected customers. To achieve this goal it will need to reduce water consumption, through the new tariff structures and encourage economical usage and by application of water meters for all its customers. This will enable it to match demand to its capacity to provide treated water and minimize pumping loads. It will also need to implement a systematic approach to the management of its assets to guarantee their integrity and efficient operation. Furthermore, it will need to continue and increase the crucial public awareness activities and in-house training and staff development programmes. Recognising the solid platform that has been built to date, it is considered that continued support could best be

achieved through a targeted budgetary mechanism leading to a sector support programme. Samoa Water Authority has a medium term (2002-2005) corporate plan and a detailed implementation plan for the new tariff system already in place. A new Public Finance Management Act 2001 provides the legal framework for improved fiscal governance, and the Public Bodies (Performance and Accountability) Act 2001 likewise provides a legal framework for better corporate governance of SOEs.

4.1.2.2 Projects and programmes outside the focal sector

Building on the success of earlier phases, a non-focal sector has again been identified as micro-project type approach to continue support to the village economy and actively involve non-State actors in the development process. The CSP/NIP foresees an intervention of € 4 million for continuation of the microprojects programme.

A proposal that builds upon the positive experience of past programmes and directly integrates civil society in the process has been forwarded to AIDCO/C/4 in November 2002. The current micro project phase II ends on 30 April 2003 and the new phase should be implemented soonest in order to avoid a financing gap.

4.1.3 Regional Cooperation

Samoa actively participates in and benefits from the regional indicative programmes (RIP).

The programming exercise for the 9th EDF RIP was concluded with the signature of the RSP in October 2002, during Commissioner Nielson's mission. The regional allocation amounts to €29 million and includes three focal sectors "Economic Integration and Trade" (€9 million), "Human Resources Development" (€8 million) and "Fisheries" (€5 million), and a non-focal sector, for extension of the 8th EDF programmes to the 6 new ACP countries (€7 million).

While finalising the RSP, the RAO and the Delegation have advanced the preparation of the following financing proposals:

- "Regional Economic Integration" (REI) - €9 million

The programme aims to assist the region in strengthening its capacity to implement PICTA (free trade area among the Pacific island countries), negotiate trade agreements with developed partners (eg.: EPA), participate in multilateral trade negotiations (WTO) and assist the private sector in addressing supply-side constraints.

At the end of the year the draft financing proposal was being finalised. It is foreseen to submit it to headquarters during the 1st quarter of 2003, in view of a Commission decision during the last quarter of the year. Disbursements should start early 2004.

- "Human Resources Development" (HRD) - €8 million

The objective of the programme is two-pronged: to assist Pacific island countries (PICs) in developing a sector-wide strategy for Education and subsequently to finance the implementation of some parts of that strategy. Most PICs have identified Education as a focal sector in their NIP and a number of other donors are very active in the sector in all of them. Therefore the parts of the strategies that have a more national character will be implemented with national funding (both governments own resources and donors') and those that have the capacity to be shared by the region (such as teacher training, curriculum development, etc.) can be selected for funding by this programme.

Progress in the preparation of this financing proposal is almost in par with the REI. The draft financing proposal is being finalised and is expected to be sent to headquarters during the 2nd quarter of 2003. A financing decision is expected by the end of the year and implementation should start early 2004.

- “Fisheries” - €5 million

This section will be composed of two projects:

- a) Extension of PROCFISH to the 6 new ACPs - €2.22 million

The complementary financing proposal was submitted to headquarters end 2002 and is expected to be approved by mid-2003, for immediate implementation (cf. 8th EDF, below, for further details on PROCFISH).

- b) DEV FISH, a project to be managed by the Forum Fisheries Agency (FFA) in collaboration with the Secretariat of the Pacific Community (SPC) - €2.7 million

The objective of the project is to increase the benefits received by PICs from sustainable use of marine resources, by increasing the capacity of PICs to directly participate in the tuna fishing and processing industry, and reinforcing national and regional policies and strategies for the sector.

The financing proposal is in preparation, it is foreseen to present it to headquarters during the 2nd quarter of 2003, in view of a decision before the end of the year. Implementation should start immediately after.

4.2 Other Instruments

4.2.1 European Investment Bank

The European Investment Bank has extended loans totalling € 18.0 million from risk capital resources. The sectors were transport (Pacific Forum Line), and energy (hydro-power schemes). In addition, risk capital has been provided as global loans to the Development Bank of Samoa for onward lending. Under the Second Financial Protocol of Lomé IV a loan of € 3.0 million was agreed in July 2000 for financing of productive investments from small to medium scale enterprises in the industrial, agro-industrial, fisheries and transport sectors, in tourism and other services sectors. This loan was utilised faster than expected towards 28 sub-projects. The number of jobs created through the financing of these projects amounts to 200.

EIB activities in Samoa for 2002 were limited to the signature of a fifth global loan of € 4 million in favour of DBS. The DBS has proved an efficient user of EIB resources and for this reason, it was decided to increase an envisaged amount of € 3 million to € 4 million. The loan was signed on 18 November 2002 and has an allocation period of three years. It is proposed to disburse the loan in eight tranches of € 500,000 each. The proposed operation is expected to create more than 250 jobs across a wide range of sectors.

Dept servicing of Bank loans to Samoa has always been regular.

4.2.2 Stabex

Samoa has received more than € 26 million in STABEX transfers under the Lomé Conventions (1975 – 2000) to help stabilise export earnings from agricultural commodities, primarily copra, coconut oil and cocoa beans. Funds have been used for rehabilitation and maintenance of basic infrastructure, and the support of agriculture (revitalisation and diversification). It has contributed significantly to the rehabilitation efforts following the cyclones of 1990 and 1991, and the destruction of Samoa’s main export commodity by taro leaf blight disease in 1993. An

external evaluation of STABEX funded projects was undertaken in January/February 2001 with the final report published in August. The evaluation was largely positive and highlighted the potential long-term benefits.

All STABEX Transfer funds have been included in FMOs and all funds have been committed for project activities/contracts. The most significant on-going activity is the implementation of a High Temperature Forced Air (HTFA) treatment project that will result in horticultural produce meeting quarantine requirements for export to New Zealand and other potential markets. The HTFA unit is now installed and operative and imminent opening of market access for breadfruit and papaya is anticipated.

5. PROGRAMMING PERSPECTIVE FOR THE FOLLOWING YEARS

Commitment of € 4 million for a new phase of microprojects is anticipated in April 2003. Disbursement of € 1.2 million is expected for the first year of implementation and about € 1 million per calendar year thereafter.

The water resources specialist (TA to NAO) commences on 1st April 2003 and will facilitate the development of an integrated water resources strategy and finalise the support programme for the water and sanitation sector. A financing proposal from the NAO for water sector support is anticipated in July 2003 with commitment and disbursements expected in 2004/1.

See annexes 1 and 2 for the perspective for the 9th EDF programme.

The 9th EDF focal sector programme proposes a comprehensive and integrated approach aimed at building and supporting strategies to achieve sustainable water resource management. Activities focus on water supply, sanitation and cross-sector coordination and integration. It is fully in line with EU Water Policy and the EU Water Initiative. Opportunity exists for synergy and complimentary actions with the 8th EDF Regional project “Reducing Vulnerability of Pacific ACP States, through the development of integrated planning and management systems” (8.ACP.RPA.007).

EC support will significantly improve access to safe water supply and sanitation for the population. It should ensure Samoa meets Millennium Development targets on policies and strategies for integrated water resources management and supply of drinking water, and contribute to achieving targets on improved sanitation.

6. ANNUAL OPERATIONAL REVIEWS – specific themes:

6.1 The speeding up of use of EDF resources

Resources from the 6th, 7th and 8th EDF are almost fully committed and funds substantially disbursed. The provisional acceptance for the RWS works was signed in December 2002 with final acceptance anticipated in December 2003. A rider to the service contract for the RWS Project Management Unit has been agreed extending the period of performance to December 2003. This will allow for further TA support to SWA for training and implementation of the new water supply scheme. The Microprojects Phase 11 will complete in April 2003 and it is anticipated that the new phase will commence in May 2003.

With the exception of very small balances (< € 200,000) all remaining funds from EDFs 6, 7 & 8 will be fully disbursed during 2003. Any remaining small balances will be reprogrammed to the water sector support.

6.2 Setting indicators and targets for measuring results in focal sectors

9th EDF Indicative Programme: Intervention framework in the water sector

	Performance indicators	Sources of verification	Assumptions
Long-term national sector targets Public health improvement via water supply and sewerage operations	Number of water-borne diseases reduced by 70% in next five years	Reports and statistics of Ministry of Health and hospitals	Health improvement remains a priority for Government policy
Intervention objectives 1. Access to clean water in town and rural areas 2. Efficient sewerage system in place 3. Self-sustainable Samoa Water Authority (SWA)	1. Population served by potable water supply increased from 91,000 in 2003 to 120,000 in 2006 2. Apia sewerage operational; other systems designed. 3. GoS subsidies to SWA decreased annually	1. SWA statistics 2. Project completion reports, SWA reports 3. Budget accounts, SWA annual reports	- Other donors support sewerage project. - Metering system successful and appropriate tariffs set - Customers willingness to pay
Results	1. Coherent water resources management strategy 2. Water supply projects completed 3. Support to SWA in place and operational 4. Public sewerage system programmed	1. Strategy adopted by Cabinet and published 2. Project completion report 3. TA reports, SWA accounts, evaluations 4. Feasibility study ready, donor co-ordination completed	
Accompanying measures of Government of Samoa	1. Continue public sector reform 2. Streamline water sector organisation 3. Adopt National Water Policy Paper 4. Involve all relevant stakeholders & NSA 5. Assess impact on environment		Other donors continue to support Government of Samoa in its reform process

Refinement of 9th EDF indicators

	2001	2002	2003	2004	2005	2006	2007	2008
A - input indicators:								
A1. GoS budget allocation for SWA	\$ 6.1 m	\$ 4.9 m	\$ 4.0 m	\$1.9 m ¹	\$1.9 m	\$1.9 m	\$1.9 m	\$ 1.9 m
A2. Donors annual financial contribution for SWA	\$ 20 m	\$ 20 m						
A.3 SWA revenue expected from user charges	\$ 3.4 m	\$4.2 m						
B - output indicators:								
B1. New water supply infrastructure in place (km of active supply pipe)	100 km	150 km	300 km	340 km	380 km	420 km	430 km	450 km
B2. Number of metered connections		4,000	5,000	9,500	12,000	13,500	14,500	15,000
B.3 Increased revenue collected as % of revenue expected								
B3. Number of trained and ready to work SWA staff								
B4. New Public Awareness activities carried out								
C - outcome indicators								
C1. Increased number of customers receiving reliable supply of potable water		47,000 (27% population)	91,000 (52% population)	100,000 (57% population)	108,000 (61% population)	116,000 (66% population)	120,000 (68% population)	120,000
C2. Ratio of revenue collected to total expenditure	28%	36%						64%
C3. Reduced ratio of operating costs to income								
C4. Reduced per capita water demand	800 l/d/c	400 l/d/c	380 l/d/c	350 l/d/c	300 l/d/c	280 l/d/c	280 l/d/c	280 l/d/c
D - impact indicators								
D1. Decreased number of (selected ²) water borne diseases reported (expressed as % of 2000 numbers)	100 %						30 %	30 %
D2. Reduced ratio operating subsidy to SWA income	1.6	1.02						

Source(s): SWA Statistics; SWA budget/ accounts/audit report; SWA Annual Reports; Health Department Statistics (notifiable disease reports).

¹ Cost of Community Service Obligations – these are uncommercial activities which SWA is required by government to undertake in the interests of the Samoan community. A commercially oriented business would not normally undertake these activities in the absence of Government Direction and associated CSO payment.

² Gastroenteritis; Unclassified Diarrhoea; Infantile Diarrhoea; Typhoid/Paratyphoid.

6.3 Dialogue in country with the NAO and non-state actors

The in-field dialogue in the Pacific Region is generally problematic given the logistical difficulties for the Delegation in Fiji to reach to more remote ACP countries. The situation for Samoa is more fortunate, as the Commission has an Office in Samoa to ensure day-to-day co-ordination.

Regular missions from the Technical Advisor from Fiji have also contributed to a very good collaboration between the Samoan Authorities and the Commission which has resulted in an above-average performance for our joint co-operation programme.

Good dialogue was held with non-State actors in the evaluation of the on-going micro-projects programme and also in the preparation of the proposal for a new phase. The proposal provides for an increased role for NGOs and non-State groups in the selection, implementation and monitoring of projects.

7. CONCLUSIONS

Samoa is a small island developing state still listed by the UN as a least developed country. The population of 176,000 people dwell largely in coastal villages on the two main islands of Upolu and Savaii. The capital Apia, located on Upolu, has a population of 39,000 (2001 census), 42,000 people live in rural villages on Savaii. Samoa's underlying population growth rate is about 2.45 % a year, reflecting steady fertility rates and improved mortality rates. Steady emigration reduces this effective rate of population growth to around 0.5%. New Zealand, Australia and the United States have significant and growing Samoan population with an estimated 115,000 (NZ census 2001) in New Zealand alone. While emigration assists the economy (around SAT \$ 147 m was received in remittances in 2001) and reduces pressure on the fragile environment, it also drains the country of its most valuable resource: people – both skilled and unskilled.

Samoa's population growth rate remains one of the smallest in the world, but the population distribution clearly indicates a resettlement pattern to the greater Apia urban area and away from the rural areas in both Upolu and Savaii. This has resulted in a growth increase in urban population (1991-2001) of 20.1 % around four times the national average. However, underemployment is already common in the capital, and the potential for a growing impoverished urban population is high. While there is no abject poverty in Samoa, UNDP recognizes poverty of opportunity as a prime concern, as in other Pacific island nations. Poverty of opportunity embraces lack of education and access to health services, lack of economic assets and employment opportunities, social exclusion and political marginalisation.

A growing body of economically inactive and disenchanted youth would certainly present increasing social and economic problems for Samoa. Recognising these unwelcome trends the Government of Samoa has given priority, in its mid-term development plans, to revitalising the village economy and improving the basic services and infrastructure in the rural areas.

The EC cooperation programme under Lome 4 is directly assisting in the achievement of these goals through a community led micro-projects programme focused on social and economic infrastructure in the rural areas and a major water supply project targeted at supplying water to an estimated 45,000 village people. Implementation of these programmes is proceeding well with substantial completion of the water project works in December 2002 and implementation of more than 250 microprojects in areas such as education, agriculture/fisheries, water, health,

tourism, youth and culture.

More than 99% of the 7th & 8th EDF funds have already been committed, and of the ongoing €19.8 m project commitments, €18.03 m had been disbursed by December 2002.

The stable political environment, combined with good economic growth and inclusive social development strategies, has contributed towards achieving Samoa's development goals. Through its positive policy action, Samoa has emerged as a leader of economic and public sector reform in the Pacific. The challenges facing Samoa are to maintain a stable macroeconomic framework, build diversity into the economy, to consolidate the fiscal reforms and economic growth, to improve the efficiency of state-owned enterprises and to ensure the benefits of recent reforms reach all the population.

Progress in achieving the Millennium Development Goals in the social area will require sustained public investment in health and water and sanitation sectors, hence the 9th EDF programme focus on improvements in the quality of public health through the development, management and conservation of water resources and disposal of waste water. A further phase of the micro-projects programme will continue to contribute to the revitalisation of the village economy through improvements in social and economic infrastructure. The new phase will provide increased opportunities for non-state actors to take the lead in community development programmes.

Recognising the positive achievements made in the governance and economic environment in Samoa, together with the clearly articulated development strategies, consideration should now be given to allocating funds via a budget support mechanism.

**Tentative forecast of estimated commitments of 9th EDF resources
(€ million)**

		Cumulative commitments *										
SAMOA	Indicative total	2001/2	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
<u>EDF co-operation</u>												
Water Master Plan II and Water Supply II			-	0.3	-	15.0	15.0**	-				
Non-focal sector (Microprojects)		-	-	-	4.0	4.0	4.0	-				
Balance funds for insurance reserve					-	-	1.0					
TOTAL (cumulated)		-	-	0.3	4.3	19.0	20.0**	-				

* Assuming 9th EDF funds available in early 2002

** Further commitments depend on development of sewerage project.

**Tentative forecasts of estimated payments of 9th EDF resources
(in € million)**

		Cumulative payments										
SAMOA	Indicative total	2001/2	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
Water Master Plan II and Water Supply II			-	0.0	0.1	1.0	5.0	7.50	10.0*	12.5	15.0	15.0
Non-focal sector (Micro-projects)			-	-	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0
Balance funds for insurance reserve		-	-	-		0.4	0.6	0.8	1.0	1.0	1.0	1.0
TOTAL			-	0.0	0.7	2.4	7.1	10.3	13.5*	16.5	19.5	20

* Further (additional) payments depend on development of sewerage project.

ACTIVITY PIPELINE CHRONOGRAMME

For the two years ensuing from the signature of the CSS and the work programme the following forecasted dates might be specified:

Title	Amount (in € million)	Identification	Appraisal	Financing decision
Focal sector				
1a) Water Resource Strategy 1b) Water Supply sector programme support	15.0	1a) 2001/2 1b) 2002/2	1a) 2002/2 1b) 2003/1	1a) 2003/2 1b) 2003/2
2. Sewerage	(*)	2001/2	2003/2	2004/1
Non focal sector:				
Microprojects	4.0	Already identified under Phase II	Evaluation study completed 2002/2	2003/1
3. Reserve	1.0	According to needs		
Total	20.0			

* depends on further development of sewerage project

SAMOA
Ongoing EDF projects

Title	Project N°	Commitments (fin. decision) in €	Disbursements (Dec 2002) in €
Rural Water Supply	6 WSO 25	300,000	142,490
"-	7 WSO 29	5,300,000	4,801,342
"-	8 WSO 03	13,120,000	12,292,178
Micro-projects Programme, Phase II	8 WSO 04	1,000,000	792,324
TA to NAO	9 WSO 01	350,000	---
Total		19,800,000	18,028,334